



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our ref: B1/15C
C2/5C

20 October 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Life Insurance Policy Replacement

I am writing to draw your attention to some key observations identified in the course of supervisory work of the Hong Kong Monetary Authority (“HKMA”) as well as the expected standards in relation to selling of life insurance policies, where a customer applies to purchase a new life insurance policy, and replaces or makes certain change(s) to an existing life insurance policy previously purchased (“policy replacement”).

Given the long-term nature of life insurance policies, the customer may suffer losses as a result of the financial implications, insurability implications, claims eligibility implications, etc. arising from the policy replacement. In the light of these implications, a key supervisory focus of the HKMA on the insurance intermediary activities of authorized institutions (“AIs”) in recent years has been the adequacy of the processes and controls of AIs in handling insurance transactions with policy replacement. The supervisory experience indicated that while AIs in general had in place relevant policies and procedures, some deficiencies had been identified in the practices of some AIs in the handling of policy replacement for which the AIs concerned had been required to take remedial actions.

Having consulted the Insurance Authority (“IA”), the HKMA shares in the **Annex** to this circular its observations on the practices of AIs including weaknesses identified in their handling of policy replacement. Along the requirements under the “Guideline on Long Term Insurance Policy Replacement (GL27)” together with the corresponding Interpretation Notes issued by the IA, the **Annex** also provides guidance to AIs on standards expected of them to identify, monitor, review and follow up on policy replacement so as to accord protection to customers. In particular, AIs are expected to take all reasonable steps to identify

policy replacement at the point of sale, and conduct monitoring on policy replacement after the point of sale. AIs are also required to assess and provide advice to the customer on whether the proposed purchase of a new life insurance policy is in the customer's best interests, taking account of the potential implications and adverse consequences to the customer arising from the policy replacement.

Attention of AIs is drawn that the transitional period of implementation for GL27 will end on 31 March 2021, and AIs are expected to implement any necessary and appropriate measures to comply with the applicable requirements.

AIs should immediately review and make necessary improvements to their policies, procedures, controls and monitoring relating to policy replacement having due regard to the issues and guidance set out in the **Annex**, and comply with this circular no later than 6 months after the end of the transitional period for GL27. Sufficient training should be provided to staff to facilitate their understanding and compliance with the requirements.

The HKMA will continue to assess the compliance of AIs with the statutory and regulatory requirements in relation to policy replacement in the course of its supervision.

Should you have any questions on this circular, please contact Ms Candy Tam at 2878-1292 or Mr Savio Chan at 2878-1431.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

c.c. IA

(Attn: Ms Carol Hui, Executive Director (Long Term Business)
Mr Peter Gregoire, Head of Market Conduct (Acting) & General Counsel)